# ON WHAT PRINCIPLES SHOULD A COURT OF ARBITRATION PROCEED IN DETERMINING THE RATE OF WAGES?

JOHN B. CLARK.

In a progressive society the prices of goods tend toward the cost of producing them in the most efficient establishment. As improvements in method and in organization are continually making, the standards of price are continually falling and the actual prices pursue the standards but lag behind them in their downward movement.

If all the producing establishments were at once brought to the highest plane of efficiency, the labor cost of commodities would be at a minimum; and this signifies that the product of labor would be at a maximum. Since, under free competition, the wages of labor tend to conform to the product imputable to labor, wages also would be at a maximum.

Competition gradually brings all producing establishments which survive and cater to a general market toward the plane of efficiency set by the most advanced competitor. The product of labor increases and thus furnishes a rising standard of wages. The actual pay of laborers pursues but never overtakes the standard set by this increasing product. In this sense the standard of wages of to-day is the product which is realized by some employers now and will be realized by others in the future.

Wages in the present are normal if this standard toward which they are tending is itself normal and if present earnings fall below that amount by an interval

that is fixed in a natural way. When competition is general and free both the standard and the interval are normal, but monopolies, by checking progress, lower the standard toward which wages are tending and increase the interval between the standard and the prevailing rate of pay. They reduce the present *marginal* product and the pay of labor.

When some industries are receiving profits due to monopoly they pay wages which are based on the rates generally prevailing, though they may somewhat exceed these rates. The prevailing wages are reduced by the monopolies' action in limiting the opportunities for employment.

Wages, under any mode of adjustment, are *governed by* the product of marginal social labor, but may differ from that product by varying amounts.

When employers deal with individual laborers the wages resulting may fall below the product of marginal labor. The workman is forced to sell something which the employer is not obliged to buy, since he can dispense with any individual's labor with little or no loss. When an employer deals with an organized body of workmen the men offer what they must sell and what the employer is forced to buy if he continues producing. He cannot dispense with an entire body of workmen.

In making their contract for wages the workmen hold a strong position if it is difficult for their employer promptly to secure the amount and the quality of labor which he needs by resorting to the general market. The skilled and disciplined force is worth more than a new and untrained force and can often get an amount of pay that approximates the standard set by the product of marginal labor.

The workmen's position is stronger and their pay is

higher when they are permitted to guard their positions against other claimants. If they can strike and still maintain a quasi ownership of their positions and forcibly repel other men who wish to occupy them, they can sometimes secure pay which is in excess of the standard set by the social productivity of labor. Their wages equal the standard rate plus a sum that varies according to their power to guard their vacated positions.

The workman's power of coercion depends on the toleration by the community of acts of violence. With the laws fully enforced the workmen who should strike would lose control of their positions.

The toleration of violence by the local community is due to a fear lest the easy filling of the vacated positions by necessitous men who make their bargains individually may result in a rate of wages that would be below the normal standard. Whenever a new force can be made up from men who have been for some time out of employment this possibility acts in advance on the rate which an organized force now at work can successfully demand. Certain organizations of laborers would lose some of their present strategic power if they were forced to obey the law.

Without a system of arbitration the community has to choose between allowing the presence of some unemployed men unduly to depress wages and allowing organized laborers to monopolize their positions and defend them by force. This latter alternative means quasi anarchy and frequently requires an appeal to the military power.

Wages are highest where employers' monopolies secure extortionate prices for goods and trade unions secure for their members a part of the profits thus realized. Employers and employed in the favored industry thrive

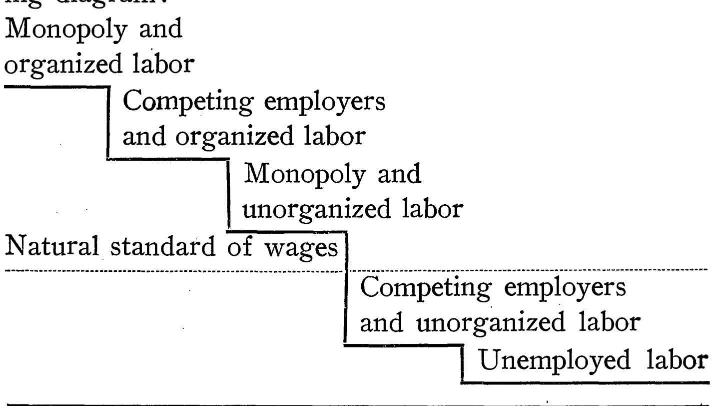
at the cost of the purchasing public, while in other occupations labor is somewhat congested and wages are depressed.

Strong unions working for competing employers ensure high wages when they are able to limit the number of their own members and forcibly exclude other men from their field.

Unorganized labor working for monopolies may secure moderately high wages in the cases in which the employers' position is rendered insecure by public action and support by their employees is necessary for averting a loss of profits.

Unorganized labor working for competing employers gets the lowest rate of wages which are paid in regular occupations, though men who have for a time been out of employment will accept wages which are below these rates.

The foregoing facts may be represented by the following diagram:




Wages measured by distance above this line.

In all the instances in which wages are adjusted by collective bargaining the amount of power which unions

have forcibly to exclude rival workers from their fields is an element in determining the rates of pay which they secure for their members.

This power of forcible exclusion is an element in determining the wages which are adjusted by conciliation, since the rate which workmen will accept is gauged by what they might extort by a strike in which the exclusion would play its part.

Force plays a certain part in the adjustments which are made by those special tribunals of arbitration which contending parties create while strikes are pending, since workmen are unwilling to accept such arbitration unless they have reason to expect that it will give them something approaching what a strike would yield, and that itself depends on the amount of violence they can safely use.

Force would play a smaller part in the adjustment of wages by tribunals which are compelled by law to take action whenever strikes are pending, but are not armed with power to enforce their decisions. If workmen reject awards made by impartial tribunals, they cannot count on a tacit acquiescence by the public in acts of violence against non-union laborers.

Force would play scarcely any part if a law, in providing for the compulsory investigation of disputes between employers and employed, required that work should go on while the investigations were in progress and should confirm the laborers' tenure of place on condition of their accepting the court's award, but should declare the tenure forfeited if the award should be rejected. Workmen will not actually sacrifice their tenure of place and will not be allowed by the community forcibly to hold it while they reject a just rate of pay and other men accept it.

Wages when adjusted by such semi-compulsory arbitration would more closely approximate their natural standard than they do when otherwise adjusted. If this system were generally introduced the condition of laborers as a class would be much improved, though the gains which a few secure by acts of violence would be forfeited.